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THE ATLANTA ECONOMIC REVIEW

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Authors and Articles

JACK BLICKSILVER

In the March issue of the *Atlanta Economic Review*, Dr. Blicksilver's article contained excerpts showing trends in *management* as indicated in the author's monograph on cotton manufacturing in the Southeast. In this month's paper, excerpts describing the *worker and working conditions* are given.

Dr. Blicksilver is Associate Professor of Economic History, School of Business Administration of Georgia State College of Business Administration.

A. L. FELDMAN

Mr. Feldman, President of the Puritan Chemical Company, contributes to "The Management Forum" by describing the Program Management System followed by his company—a system which has a *management team* acting as the *top executive* and is particularly adaptable for use by the small firm. Mr. Feldman points out the numerous benefits of this type of formal planning program.

WARREN A. WALKER

Mr. Walker begins a short series on industries which might be developed in the South. As an introduction to his suggestions, his paper this month includes a resume of the southern economy as it was originally characterized by low-value-added industries—principally cotton production, followed by textiles.

In Part I he also suggests *wood particle board production* as a possible industry for development in this area, pointing out that this use of residue products from southern sawmills has been suggested recently by other sources.

LELAND CARLING WHETTEN

Dr. Whetten, whose monograph on proxy contests was published recently, continues his study of this type conflict in corporate enterprise by examining the role of the Securities and Exchange Commission in proxy contests. In his article this month, the author points out the major provisions of the Securities Exchange Act of 1934 and the proxy rules and regulations of the Commission. He also discusses the limitations of regulation and the problems connected therewith, as well as some of the abuses of the Commission rules as they have been exhibited in recent contests.

Dr. Whetten is Professor of Accounting, School of Business Administration of Georgia State College of Business Administration.

GEORGE E. TOMLINSON

By act of Congress, the U. S. Study Commission, Southeast River Basins was established late in 1958. In his article, Mr. Tomlinson, executive director of the Commission, gives the purpose of the Commission and discusses its assignment.

The area to be studied by the Commission directly involves the states of Alabama, Florida, Georgia, and South Carolina, and to a lesser extent North Carolina. This project for economic study of the southeast river basins region, representing the cooperative effort of Federal, state, and local groups, is hoped to achieve "broad fully integrated land and water resources planning"—an undertaking of major importance in economic development in the area.

ATLANTA ECONOMIC REVIEW

excerpts from monograph

COTTON MANUFACTURING IN THE SOUTHEAST: AN HISTORICAL ANALYSIS

showing

THE WORKER AND WORKING CONDITIONS

by
Jack Blinksilver

The southern labor supply was plentiful

Before the turn of the century, the southern mills relied heavily upon white, tenant farmers residing in the Piedmont. Until the rapid expansion of the industry after 1900, it was possible to locate a plant in virtually any part of the upland area of the Carolinas, Georgia, or Alabama, and be certain of an adequate supply of labor. Actually, the danger of a labor shortage was greatest in the larger urban centers. Labor which was drawn from the rural countryside, entranced by the possibility of cash wages and accustomed to back-breaking toil from dawn to dusk, was not likely to regard factory work as a decline in social or economic status.

* * *

At first many women and children were employed

During the 1880's and 1890's there was a heavy reliance upon child and female labor, during a time when child labor was declining in New England. Of the 16,741 operatives in the 161 southern mills in 1880, only 28.4 per cent were men. Fully 46.5 per cent were adult women, and 25.1 per cent were children under sixteen.

Although most cotton mill parents did not regard work as inherently deleterious to the child, primarily it was a question of economic survival. From the very beginnings of the cotton textile industry in America, the working force was the family unit, and there were usually more jobs available for youngsters and women than for adult males. Furthermore, the wages were never high enough for a single working member to support the entire family. With wages in the South being much below the prevailing northern rate, the underlying factor behind child labor in this period was, as a strong defender of the industry frankly conceded, "the utter necessity, alas, too often, necessity to work little ones 'to keep body and soul together.'"

The plight of the children in the southern cotton industry, perhaps because of the large numbers involved, touched the conscience of the nation until

southern textile executives became increasingly sensitive to the criticism directed toward them. By the turn of the century, especially as the economic unfeasibility of the use of small children in operating complicated and rapid machines became increasingly apparent to mill executives, many of them joined the reformers in asking for some type of labor legislation restricting child employment. Southern millmen were principally interested in setting the minimum age at twelve, since it was generally believed, as a South Carolina manufacturer noted, "from 12 to 16 they make the best spinners and doffers."

As the industry developed, the increasing use of ring spindles and automatic looms brought with it an increasing employment of young people under 16 and of men, thus releasing adult women for family responsibilities. In handling Northrop looms and fly frames the premium placed on strength and steady nerves made it advantageous to employ adult males, who by handling more machines could earn a higher total wage than could women or children. By 1910, there was a higher percentage of male adult labor in the southern segment of the industry than in New England. On the other hand, minors were heavily concentrated in the positions of doffers and ring spinners, but even here technological changes were making them less valuable. This fact, perhaps even more than the intensification of the movement to restrict labor of children, explains their decline to 17.8 per cent of the wage earners in the southern cotton industry by 1910.

* * *

Wages were very low in the beginning

The textile industry everywhere and at all times has tended to be a low-wage industry. Productivity per worker is limited, under the best conditions, by the numerous intermediate stages through which cotton must go from raw material to finished product. The wage level is further eroded by the intense competition which has tended to characterize cotton manufacturing and by the fact that most of the labor required need not be highly skilled.

The tendency was for regional wage differentials between the South and New England to narrow somewhat as the period advanced. When the cotton mills were just beginning to be established in large numbers during the 1880's, weavers in an average South Carolina establishment were earning 8 cents an hour compared to 12.5 cents made by weavers working on comparable grades of cloth in an average Massachusetts mill.¹ Through the 1890's, southern cotton textile wage rates averaged 56.6 per cent of those in New England. During these years there were considerable variations in wage rates from mill to mill in the South, with the country-bred workers generally ignorant of wages.

By the turn of the century the spread between wages in New England and the South was reduced somewhat, but a considerable gap remained. A survey of the full-time weekly earnings of adult cotton textile workers in the two regions for 1907-1908 underscores how far the South had to go to catch up (Table 1).

Table 1
COMPARISON OF FULL-TIME WEEKLY EARNINGS
ADULT COTTON TEXTILE WORKERS
NEW ENGLAND AND THE SOUTH, 1907-1908

	44 New England Mills		151 Southern Mills	
	Males	Females	Males	Females
Doffers	\$6.77	\$6.07	\$5.08	\$4.70
Ring Spinners	6.77	7.36	5.96	5.71
Speeder Tenders	9.64	8.88	8.21	7.09
Spoolers	—	6.77	6.08	5.71
Weavers	9.93	8.99	8.53	7.21

Source: Data from U. S. Commissioner of Labor, *Report on Condition of Woman and Child Wage-Earners in the United States*, I, 328, cited in Melvin T. Copeland, *The Cotton Manufacturing Industry of the United States* (Cambridge, Mass.: Harvard University Press, 1923), pp. 34-35.

Over the long period since the turn of the century the wage differential between the two leading textile producing centers has continued to narrow, although the progress has been intermittent. New England's excess in hourly earnings fell from close to 100 per cent before the turn of the century to under 40 per cent by 1912. But, with a new source of labor discovered by the mill owners in the Southern Highlands and with the rapid growth of war industries siphoning workers out of cotton textiles in New England, the gap began to widen again after 1914.

Between 1918 and 1920 postwar prosperity led to a more than doubling of hourly rates in the South, and in terms of annual earnings the ratio of southern to New England wages in cotton manufacturing

rose to 80 per cent. This proved to be the peak, however. While hourly wages fell in both regions, the decline was much more precipitous among the unorganized workers of the South. By 1921 the ratio had fallen to 69 per cent, and it did not rise above this level until the early 1930's.

The precise weight given to the variety of elements determining the wage rates in an industry has never been agreed upon, but certainly of great significance are the numbers of workers available in relation to the demand for their services, their productivity, and the general wage level in the particular area. In all three respects the southern textile worker was at a disadvantage compared to the New England cotton worker.

It could be argued, nonetheless, that although southern textile wages were below those of the North, they were high as compared to other major southern industries. The \$607 annual wage received by the mythical average employee in the South Carolina cotton mills in 1924 was considerably above average yearly earnings in lumbering, fertilizer, and other leading industries in the state. As a matter of fact, cotton wages have always compared favorably with clerking and teaching in the rural South.²

* * *

In recent years southern wages almost equal those in New England

Wage differentials lost much of their former importance during the period following 1940. Minimum wage legislation and pressures from high-wage industries which developed in the South during the war narrowed the wage spread. After 1940 the real wages of the average cotton textile worker increased 57.1 per cent, or almost double the gains recorded during the decade of the 1930's. The larger wage increases won by southern employees during the war reduced the regional differential in average hourly earnings from 18.8 per cent to 14 per cent. By 1945 wages in the southern cotton goods industry more closely approached that of other southern industries and of the New England segment of cotton textiles than ever before.

By 1952 southern cotton textile rates averaged 85 per cent of the New England level. As the result of wage reductions in the North during the recession of 1954, the differential declined still further. Although the South employed relatively more workers

¹ Gustavus G. Williamson, Jr., *Cotton Manufacturing in South Carolina, 1865-1892* (unpublished Ph.D. dissertation, The Johns Hopkins University, 1954), p. 158.

² William H. Simpson, *Life in Mill Communities* (Clinton, S. C.: P. C. Press, 1943), pp. 86-89.

in the minimum wage categories and fewer in the highest, the median rate was little behind that of New England even before the increases of the winter of 1958.³

* * *

Housing was provided by millowners

It has been argued, of course, that the various social services and subsidized housing made available to mill workers in the South constituted so considerable a contribution on the part of the manufacturer that in terms of standard of living it placed the southern worker on an equal plane with his northern counterpart. This claim cannot be ignored, although it must be emphasized at the outset that for most mills the financial contribution of the company consisted largely of housing and education.

Subsidized housing from the very beginning was a universal characteristic of the industry in the South. Since most of the mills were established either in rural communities or on the outskirts of larger cities, it was deemed absolutely essential that housing be provided. With building costs low, the mill village when amortized was not a great financial burden, and it was preferable to save scarce capital by giving the workers reduced rents in lieu of higher wages. Thus, average rents varied from as little as 25 to 50 or 75 cents a week for each room occupied—rates which were from a third to a half that of Lowell and Lawrence, where the boarding houses constructed earlier were in the process of being sold. For the newer New England mills in such seaboard communities as New Bedford and Fall River, tenement houses were still being built, but the rent charged was not much below that prevailing generally in those cities.

As far as quality was concerned, the mill houses ran the gamut. With as much diversity as did exist, it would be fair in striking a general average for a period when utilitarianism was still the lodestar of the mill managers, and the very newness of many villages precluded the softening effect of trees and bushes, to accept the conclusion that "the general impression given by the factory villages is usually one of monotonous ugliness."

Most workers, quite naturally, appreciated the superior housing provided by the better mills, but for a large number it apparently made little difference. Millmen continued to report that a considerable

minority of textile employees remained transient, moving as readily from a good mill village to a poor one as vice versa.

Two final comments on mill-housing should be made. One is that even the poorer quality homes were usually an improvement over what the workers had lived in as tenant farmers scratching a meager living from the soil. Second is the undeniable fact that there was a definite tendency for the housing to improve with time.

* * *

The southern laborer was highly mobile

The tendency to move from one village to another was in part a search for adventure and change following the relatively settled nature of farming. For many, there was no logical explanation for their mobility other than an inability to adjust to a new way of life and work. For some the adjustment was never to be made; for most a more prolonged contact with the industrial world tended to calm their troubled spirits and halted their restless search for Valhalla.

Contemporary observers of the southern textile scene were also struck by the laborers' low social status, the mutual antagonism toward town dwellers, and the fact that they demonstrated "less virility and ambition than other factory workers."

Some general tendencies were increasingly manifest in the period after 1910. One was that while the mill workers, and especially the more recently recruited mountaineers, were notoriously independent-minded, they could exercise this spirit of freedom in the mill village environment largely in a negative fashion, through a passive resistance reflected in a high rate of absenteeism or in moving to another village. That this was done is evidenced in the interesting fact that although full-time working hours in the southern mills continued to be much longer than in New England, actual average working hours were fewer than in the North and the spare-hand system continued to be essential.

* * *

As transportation facilities improved, mill-housing became less necessary

At a time when subsidized housing was becoming more and more a financial burden on the mills, developments were taking place which were making it less necessary for the mill village to attract and retain an adequate labor supply. With the rapid

³ H. M. Douty, "Wage Differentials Between the South and Other Regions," *Georgia Business*, XVII (April, 1958), 1; Bureau of Labor Statistics, "Earnings in the Manufacture of Cotton, Silk, and Synthetic Textiles," March, 1958: Report on New England Industry, 1952.

growth in the number of automobile owners and the improved highways constructed during the 1920's, families could travel long distances to work in the mills. As textile wages declined and work became more irregular, some mill workers moved back to the farm but continued to respond to the mill whistle when there was a demand for them. On the other hand, with the virtual abolishment of child labor and a national trend toward smaller families, fewer workers were being drawn from each subsidized house. Between the mid-1920's and 1940 the number of employees that the company could expect from a four-room house dropped from an average of two to a little more than a single worker. Furthermore, although some mills raised rents modestly to cover increasing costs, many owners hesitated lest they antagonize their employees and lose their more skilled and experienced hands by manipulating rents that had been established for so many years that they seemed sacrosanct. A survey of 76 mills in South Carolina in 1942 revealed that 71 of them were still charging fifty cents or less per room per week.

As more and more mill executives became convinced that the capital tied up in mill villages could be far more profitably employed in mill modernization, as the younger generation of managers came to the realization that old time paternalism was neither needed nor wanted any longer, and as the very ownership of housing became "a strategic liability" for the mill in its dealings with the National Labor Relations Board, the movement to sell the houses to the workers began. The pioneering efforts of Burlington Mills in the early 1930's were followed by a few sales during most years after 1936, with the greatest activity taking place in the Carolinas. The peak prewar year was 1939, when some thirty villages were sold by a dozen companies. By the time the United States entered the second World War, approximately 25 firms in Georgia, Alabama, North Carolina, and South Carolina had sold a total of 7,000 houses grouped in 60 villages.

* * *

Workers' lives were rigidly regulated

The paternalism which permeated many aspects of village life, largely manifested in the rigid regulation of the social and moral life of the people, in the prohibitions against drinking, gambling, and swearing, tells us much concerning the nature of the working force, as well as affording insight into the complex character of the southern millman. For the owner, it seemed to be called for as much by economic necessity as by an effort to provide a decent and moral surrounding for a working force in large measure composed of children and women. The mill

villagers were drawn from the depressed agricultural area of the adjacent countryside or from isolated pockets of settlement in the mountains. These rustics "subjected for many years to the brutalizing effect of isolation, ignorance, and grinding poverty" were required to adjust rapidly to living in close quarters in an urban setting. The problem involved in the adaptation of a superstitious rural people is pointed up in the tragi-comic experience of Capt. Ellison A. Smyth, founder of Pelzer Mill, who finally discovered that families kept moving out of his village because they regarded the newly installed electric lights as being unhealthy. If it be conceded that a semi-illiterate people could not by themselves be rapidly transformed into a modern industrial community, then it may be accepted that the mill owners did render an important service by the paternalism. Although, unhappily, many of the controls imposed on the village community did smack of tyranny, basically they constituted a sincere attempt to deal with crucial problems in a realistic manner.

* * *

Working hours were long

Southern mills largely retained the eleven hour day and the twelve hour night shifts. Legally, North Carolina, South Carolina, and Georgia had the 60-hour week, Virginia 70 hours, and Alabama had no statute limitations. There were no restrictions upon night work for southern women, while in Massachusetts women were prohibited from the mills from 6 p.m. to 6 a.m. In most cases there was no extra pay for night work. New workers were often required to accept an evening shift in order to get on the payroll, and when times were slack families would be hired only on condition that some members work at night.

Women and children over fourteen continued to be of greater importance in the southern mills than in New England. Especially deleterious to the health and harmony of the family were the large number of working mothers. A survey taken by the Women's Bureau of the Department of Labor in the mid-1920's disclosed that fully 29.8 per cent of the women employed in southern cotton mills were both wives and mothers.⁴ Substantiating these findings was a study of 321 families in two southern states which revealed that 23 per cent of the mothers worked most of the time and three-fourths worked part time in the mills.⁵

⁴ Paul Blanshard, *Labor in Southern Cotton Mills* (New York: New Republic, Inc., 1927) p. 56.

⁵ Benjamin H. Smith, *The Social Significance of the Southern Cotton Mill Community* (unpublished M.S. thesis, Emory University, 1925), p. 12.

The tendency of mothers to be employed in the mills strongly affected the dietary habits of the families. The food consumed by the mill workers consisted largely of fried dishes "purchased and prepared uneconomically." "What other dishes," asked a competent observer of mill life in the mid-1920's, "can the small girl or the weary mother, with their limited energy, patience and knowledge prepare?"⁶

* * *

The work was monotonous

The work was not especially strenuous, but it was tedious and monotonous. Since the machines performed the creative work with little scope for individual initiative, a sense of personal accomplishment was lacking. On the other hand, there remained the strain of watching a myriad of moving threads, a strain which grew with the increasingly technical machinery and the heavier work loads imposed in the early 1920's. As an observer commented, the textile worker "must stand up nearly all day with rigid attention to the machine. He is surrounded by yards and yards of crashing and whirling machines which makes conversation with his fellow workers difficult. The chattiness and companionability of the clothing and cigar factories are entirely missing." Little wonder that after eleven hours a day or twelve hours a night of this and a generally improper diet, southern mill workers when off duty seemed lethargic and tried their best to "avoid effort." As a result, their spare time was devoted to "simple, crude diversions less immoral than unmoral."

* * *

Services of a social and welfare nature compensated somewhat for poor working conditions

Although the spirit of philanthropy remained a significant factor in regard to a few individual companies, its importance declined as did the paternalistic attitude of *noblesse oblige* manifested in the activities of a segment of the first generation of mill magnates. In the promotion of the increasingly comprehensive welfare programs of the period following World War I, more prosaic and pragmatic influences predominated, such as the desire to avoid government legislation and union activity, the pressure to emulate the leaders in the industry, and a heightened

interest in methods prescribed by efficiency experts to increase productivity. With competition becoming increasingly aggressive, the last motivation, while seldom verbalized, became the most potent. In an unusually frank statement, mill president Fuller E. Callaway colorfully expressed this growing conviction:

Running a cotton mill, or any other business is like running a dairy. I get the most expensive stock because the best cows don't eat a bit more than scrubs. I give them nice, warm houses, curry them good and then rub them on the nose before milking, and they give me four gallons of pure cream.⁷

As in the quality of housing, there was much diversity in the nature and extent of social services made available to southern cotton workers by the mills. An evaluation of the available statistical evidence would tend to suggest that, at least through the mid-1920's, the amount of welfare work carried on by the cotton textile industry in the South has tended to be exaggerated. The proliferation of welfare schemes was one of the principal features of post-World War I America; and, although beginning later than did cotton manufacturing, a number of new and dynamic industries developed welfare activities "much more rapidly and . . . much further." A questionnaire answered by firms representing 46 per cent of the spindles in the South in 1923, and then carried out to 100 per cent, disclosed that in the more than 600 mills owning villages there were only 206 community houses, 124 nurseries and kindergartens, 39 YMCA's, 202 motion picture houses, 137 bowling alleys, 107 swimming pools, and 64 hospitals.

While there was no close relation between the wage rates and social services of individual mills, it was strongly claimed by spokesmen for the mills that subsidized housing, fuel, electricity, and water at reduced charges, medical services, and other welfare activities significantly reduced the cost of living of the southern textile worker. It was also claimed that these benefits imposed a financial burden on the mills which was at least the equivalent of the wage differential in favor of the northern employee.

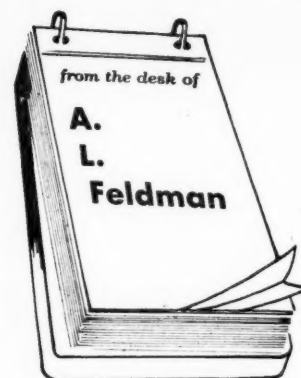
These claims must be carefully evaluated because, if true, they shatter the contention that lower wage rates was the major advantage of the southern over the New England branch of the industry. Evidence has already been presented to indicate that extensive welfare activities were undertaken by only a minority of the larger mills which were in a position to spread the expenses over a large number of workers. A related point to consider is the extent to which northern mills were subject to similar expenses.

(Continued on page 24)

⁶ Jeanette P. Nichols, article in *Journal of Social Forces*, II, cited in Blanshard, *op. cit.*, p. 55.

⁷ Interview with Ida Tarbell, quoted in Arthur B. Edge, Jr., *Fuller E. Callaway (1870-1928), Founder of Callaway Mills* (New York: Newcomen Society in North America, 1954), p. 27.

THE MANAGEMENT FORUM



Program Management Can Pay Off For Small Firms

Program management as referred to in this article deals with the concept of the "management team" in business administration and specifically with team management of small firms. A great deal of attention has been paid to this idea by theoreticians in the field of management, yet few firms have taken advantage of the possibilities which the program offers.

One outspoken management consultant and professor in the field of management, Peter Drucker, makes the following observation:

The "top executive" should be a team. The one-man executive is no longer capable of making the decisions he is supposed to make. This problem is due to the impossibility of one man to absorb the vast amount of communications which are presented to him. While there still is someone in an organization called the chief executive, the actual job is discharged by a group.¹

At Puritan Chemical Company, a relatively small company with annual sales of approximately five million dollars, a form of the "management team" has been in operation acting as the "top executive" since 1953. An emphatic *yes* is given to the question, "Can small chemical companies take advantage of the formalized, rigid planning programs that pay handsome dividends when used by the giants of the industry?" It also is felt that small firms in other industries should look into the possibility of adopting a team management program. Granted, each

program must be tailored to the organizational and operating characteristics of the individual firm.

While Puritan's business is sanitary supplies and industrial cleaning chemicals, its experience with the Program Management System, dubbed PMS, has proved so successful that other businesses, especially smaller firms, may like an abbreviated description of PMS. Ted Fisher, Vice-President in charge of sales, states: "It's the key to successful management in the small company."

Program Management At Puritan

Puritan holds eight day-long planning meetings a year for thirteen top executives. Called the Program Management System (PMS) by Puritan, the method calls for pinpoint planning, has been a big factor in doubling annual sales, and is helping a planned \$500,000 expansion. By fostering realistic sales and profit goals, PMS has enabled Puritan to estimate its yearly sales and profit figures with startling accuracy.

Seeking a method that would establish definite objectives for future planning, reduce duplication of effort, and, in effect, be a plan for planning, Puritan adopted PMS. Now three years old, it is answering many of the company's budget problems.

PMS is an adaptation of an Army planning technique. In military style, the company is divided into four tactical and support units; these are its primary programs. Because Puritan is oriented to sales, it schedules its unit presentations in this order:

- Primary sales program (tactical).
- Primary chemical development program (transition from tactical to support).
- Primary production program (support).
- Primary administrative program (support).

Note: The Management Forum series is arranged by Dr. Francis J. Bridges, Department of Management, School of Business Administration of Georgia State College of Business Administration.

¹ Peter F. Drucker, *The Practice of Management* (New York: Harper & Brothers, 1954), pp. 170-177. (This is not a direct quotation but ideas expressed by Drucker have been related to the subject.)

Each fall, Puritan holds a series of four one-day meetings during four consecutive weeks. One day is allotted to each of the four units. The sessions, scheduled a year in advance, are called primary program development meetings—top priority items for Puritan's management. Those who attend, and their planning duties are:

President and chairman of the board—no specific primary program duties.

Sales vice-president—directs entire primary program and the primary sales program.

Northern and southern divisional sales managers, administrative sales manager, advertising manager and sales training director—assist sales vice-president.

Production vice-president—directs primary production program.

Production manager—assists production vice-president.

Technical director—directs primary chemical development program.

Secretary-treasurer, budget director and business manager—direct primary administrative program.

Controller and purchasing agent—assist the secretary-treasurer.

Each of these men attends all meetings. At each session, the director of the program under consideration must present three statements:

MISSION. A description of the kind and scope of functions carried on as part of the primary program.

OPERATIONS. A presentation of departmental programs emanating from the primary program.

GOALS. A statement that suggests objectives and timetable for achieving them. The objectives may be approved, amended so as to be approved by the group, or rejected.

After the four primary program sessions, there is a lapse of about two months with no planning meetings. During this time, the budget is being developed, since the three necessary elements for budgeting have been brought out at the four primary program development meetings—sales volume estimate; anticipated profit; planned expenditures.

Plans and Figures: Finally, late in December, the budget is reconciled with planning at the primary program changes and budget estimates meeting. This is the session in which, as Fisher puts it, "something must give." For example, perhaps the primary production program will have to delay purchase of some of the trucks it had planned to buy next year, or perhaps plans for increasing the sales force must be trimmed. Adjustments are made, and a budget is adopted.

Also at this meeting, any one of the four primary program directors who has changed his mind about some phase of his plan can request approval of a program change by the group.

To keep tab on progress of the four primary programs, Puritan has quarterly groups of review and analysis meetings held on four successive Saturdays. Sequence is the same as that of primary program development meetings, i.e., sales, chemical development, production, and administration. Here again, a primary program director may ask approval of a change in his plan, but the substance of the series is a presentation of how closely plans for each program are being carried out.

Other meetings—of somewhat less importance—are also held. Once a month, the junior staff members and department heads join the primary program group for an operations board meeting. These are informal briefings on departmental activities.

Planning Payoff: Besides the advantage of providing a timetable and a base for planning, the PMS-type formal planning has a less obvious but extremely important benefit.

It seems to impart a sense of assurance to everyone in the company. Each December, salesmen are called in for an annual meeting at which they are filled in on company accomplishments for the year that is ending and on objectives for the coming year. While the salesmen are en route, a copy of information is sent to their wives to apprise them of the planning and to emphasize that we consider them an important part of our company.

The Program Management System's ability to provide for long-range planning eliminates a time-consuming bugaboo for a concern the size of Puritan. Most small companies, says Ted Fisher, argue that the necessary meetings are too time-consuming. "To me, that's like saying 'we can't afford time for good management.'"

Until recently, Puritan never attempted detailed planning for more than two years ahead. In 1957, a five-year program was started and is working out nicely.

The success of Puritan's program can be noted by the PMS group's efforts to plan realistically with pinpoint precision. In 1959 the system enabled Puritan to estimate its sales to within 2.5 per cent and its net profit to within 2.0 per cent of the actual figure.

The idea and practice of the Program Management System also brings about many other worthwhile benefits. It goes a long way to solve the problem of manpower development for top-management positions. The philosophy behind the Program Management System is much the same as that stated by Ralph J. Cordiner, President of General Electric and an advocate of management by chief-executive team. Mr. Cordiner states:

The chief executive officer, if he is discharging his responsibility . . . should within a period of not longer than three years after he has accepted his assignment, have at least three officers equal to or better than himself in performance who could succeed to his position. . . . We think it is very important that there be a number of positions at top level that are virtually as important, are compensated almost on the same level, and carry the same dignity as the position of chief executive officer. . . . The idea is that these men, along with the president and the chairman of the board, should be a team, with each having his own specific responsibilities, yet able to carry the ball or run interference for the other fellow as occasion requires.²

² From an address, "Efficient Organizational Structure," made by Mr. Ralph J. Cordiner to the Harvard Business School in 1953.

The Role of the Securities and Exchange Commission in Proxy Contests

by

Leland Carling Whetten

Proxy Regulation at Law

The common law did not contemplate voting by proxy. This type voting is of statutory origin, and prior to 1934 the regulations concerning it were left by most states to the charter and bylaws of the individual companies. These enactments were confined largely to such items as expiration date of proxies, length of term, revocability, and the like. However, passage of the Securities Exchange Act of 1934 gave the Commission authority to promulgate rules and regulations aimed at alleviating many inadequacies of both statutory and common law with respect to stockholder participation.

The Securities Exchange Act of 1934

Proxy machinery for regulated stockholder participation in management of the corporation by voting at shareholder meetings was placed in motion when the Securities and Exchange Commission made its debut. Four enactments constitute a broad grant of congressional power to the Commission to regular proxy solicitation involving designated companies. These are Sections 14 (a) of the Securities Exchange Act, Section 12 (e) of the Public Utility Holding Company Act of 1935, Sections 305 and 312 of the Trust Indenture Act of 1939, and Section 20 (a) of the Investment Company Act of 1940. Section 14 (a) of the Exchange Act follows:

It shall be unlawful for any person, by the use of the mails or by any means or instrumentality of interstate commerce or of any facility of any national securities exchange or otherwise to solicit or to permit the use of his name to solicit any proxy or consent or authorization in respect of any security (other than an exempt security) registered on any national securities exchange in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors.

Two points about the statute merit consideration: First: "It shall be unlawful for any person" The law is not limited to one side alone, although proxy rules in effect during the first twenty-

year history of the Commission were designed primarily for conventional solicitation of proxies by the management.

Second, the statute says, "... in contravention of such rules and regulations as the Commission may prescribe..." Specific standards of disclosure are not found in the bill; only general policies to be effectuated are given. Moreover, there are no restrictions or limitations imposed provided the rules are "... necessary or appropriate in the public interest or for the protection of investors." It is by virtue of this authority that the Commission has promulgated its proxy regulations.¹

The Public Utility Holding Company Act vests in the Commission the authority to regulate the solicitation of proxies in relation to the securities of holding-company systems. The Trust Indenture Act of 1939 is in reality Title III of the Securities Act of 1933. It is designed to assure a measure of independence in and responsibility on the part of trustees in connection with the public issuance of debt securities. Special provisions were introduced in this enactment for the communication among the holders of such securities. Finally, the Investment Company Act and its companion statute, the Investment Advisers Act² assigned to the Commission its last major duties in the protection of investors. The latter statute governs certain activities of investment advisers, while the former directs its attention to the special problems of the rapidly growing investment companies. A measure of regulatory control is provided by this enactment, and the Commission is authorized to require the disclosure of relevant facts when the issuer is a registered investment company and the solicitation of proxies is undertaken.

Commission Proxy Rules and Regulations

Historically, most efforts of the Commission prior to 1942 were directed toward enforcing the disclosure principle of the Exchange Act. In 1935, the first rules were promulgated. Affirmative standards of disclosure were not set forth, however, and these rules did little more than discourage materially false and misleading statements from entering proxy solicitation material. With release of Regulation X-14³ during 1938, the contents of a

proxy letter were carefully itemized. Schedule 14-A, "Information Required in Proxy Statements" (a major premise of this regulation), was designed to elicit and bring into focus information which it was felt should be supplied security holders. In the early 1940's, the cudgel of "corporate democracy" was taken by the commission, and disclosure was conceived to be only one facet of effective proxy regulation. In keeping with this philosophy, Rules X-14A-7 and 8 were formulated.⁴

Effective operation of Rule X-14A-7 is beset with many limitations. For example, getting possession of the stock list initially is one problem, but keeping it current in a large corporation is awesome. Moreover, a point of corporation law is involved. Does the right to inspect the list extend to daily changes in ownership as evidenced at a transfer agent's office? Enabling statutes are silent on this point, and many such problems of a purely mechanical nature have not been passed upon by the case law. In the Montgomery Ward contest, this and other potential areas of discord were removed by stipulation. It was agreed that the insurgent group would receive transfer sheets at fifteen day intervals up to the date of record, which was Monday, March 14. A final certified record list was to follow within two or three days. Through stipulation, both the disclosure principle of the enabling statute and Rule X-14A-7 were satisfied. However, the possibility that solicited stockholders will receive adversaries' proxy statements at different times looms great.⁵ In situations of this nature, initiative and expediency are important. Thus a weakness of Rule X-14A-7 is visible, and in the Ward contest it became apparent. Through its ready access to the transfer list, management was able to get a substantially complete tabulation by the end of trading the preceding Friday, March 11. That evening many proxy statements containing a formal request for an affirmative vote were mailed in behalf of management. Insurgent proxy statements followed in approximately five days.

Suppose, however, that it had been agreeable for management to mail proxy material for the dissident group in lieu of providing a stock list. This alternative is provided by Rule X-14A-7, but limitations are even more obvious: first, through its ability to see, at that moment, what opposition is saying, the cause espoused by management is enhanced. An op-

¹ The rules have undergone six major revisions since 1935.

² This law has never worked very well since it did not give the Commission any real enforcement or investigating authority. Rather extensive amendments to this enactment have been submitted to the Congress. See, "SEC's Aim: Keep the Boom Honest," *Business Week*, the Markets section, July 13, 1959, p. 104.

These enactments were recently invoked against the Managed Funds, Inc., by the Security and Exchange Commission because the officials charged with the investment policies of the funds were "abdicated" their investment management responsibilities. For an interesting discussion of this case, see "Managed Funds Gets a Manager," *Business Week*, the Markets section, March 26, 1960, pp. 149-150.

³ Except for the rules under caption "Rules of General Application," each rule relates to a particular section of the Act. Thus, Rule X-10A-1 relates to Section 10 (a) of the Act. The "X" in the rule number designates the act under which the rule was promulgated and the last number indicates rule sequence.

⁴ Rule X-14A-7 (the so-called communication rule) is a two-sided shield which requires management either to mail a shareholder's proxy statement to fellow shareholders at a reasonable fee or to furnish the opposition with a "stock list." Rule X-14A-8 (the so-called shareholder proposal rule) permits a shareholder to obligate the management to include in the proxy statement a shareholder proposal provided it is a proper subject of action. Should management be in opposition to it, the shareholder is entitled to include in a proxy statement up to one hundred words in support of his proposal. Moreover, the proxy must contain appropriate boxes to enable the shareholder to vote for or against the proposal.

⁵ In the Montgomery Ward contest, there were about eight mailings by each side to approximately 68,000 shareholders.

portunity is thereby afforded either to neutralize the opposition's appeal or to explain it away. Next, incumbents are in a position in which they can reasonably determine the time of mailing; and, if delay suits their purpose, procrastination is momentarily feasible. Finally, a grave psychological barrier is created through providing opposition with advance copies of material intended to "unhorse" them. Such thoughts are not conducive to peaceful sleep!

In 1942 the adoption of Rule X-14A-8 by the Commission stirred up a congressional investigation, and controversy continued unabated for several years. The American Society of Corporate Secretaries, Inc., whose membership exceeds 700, was the chief foe of the rule. This group maintained that proxy rules were abused by "professionals," who often heckled management at annual meetings and burdened proxy statements with proposals of a personal nature.⁶ Because stockholders also have responsibilities under the Act, amendments to Rule X-14A-8 were promulgated during January 1954. In substance they are as follows:

(a) The thirty-day advance submission provision was extended to sixty days. That is, the stockholder must now submit his proposals sixty days in advance of the proxy mailing date. This amendment was deemed necessary to give management more time to consider security holder proposals.

(b) The original rule left to managerial discretion the task of determining which proposals qualified for inclusion in proxy statements under state laws of incorporation. When inclusion of a stockholder proposal is denied by management, the amended rule requires management to furnish evidence supporting its decision to both the Commission and the stockholder.

(c) Under the 1954 release, any proposal that has been submitted within the previous five years and that has received less than three per cent of the total number of votes on the first submission, less than six per cent on the second, and less than 10 per cent on the third time around can be withheld from the proxy statement for three years. Under the old rule, a proposal that got three per cent of the total votes one year could be resubmitted the following year.

The above amendments were promulgated only after the Commission held its first administratively ordered public hearing on proxy rules during its entire twenty year history. To allay fears of certain

minority stockholders, Commission Chairman Ralph Demmler made this comment: "The changes were not intended in any way to injure or adversely affect the rights of minority stockholders, but to place what seems to be reasonable limitations on the rule."⁷

Abuse of proxies may come either from seekers of corporate power or from an entrenched management. Legislative history of the Exchange Act indicates that Congress was in opposition to both. For example, the congressional reports state:

... the rules and regulations promulgated by the Commission will protect investors from promiscuous solicitation of their proxies, on the one hand, by irresponsible outsiders seeking to wrest control of a corporation away from honest and conscientious corporate officials, and, on the other hand, by unscrupulous corporate officials seeking to retain control of the management by concealing or distorting facts.⁸

Initially, the Commission gave little thought to proxy abuse instigated by stockholder groups. The disclosure rules were designed largely for solicitation of proxies by management. Moreover, basic nomenclature was narrowly circumscribed. For example, the term "participant" was restricted to a corporation, its directors, and nominees. Large corporations have recently become involved in bitterly-fought contests, however, and conduct of opposition has often been motivated by selfish considerations. Colorful personalities among contestants often contribute to development of novel situations. Often these are beyond the disclosure rules. Contests involving New York Central, Montgomery Ward, Libby McNeill & Libby, and Fairbanks, Morse & Company served to focus attention upon the inadequacies of the rules when management is coping with an allegedly unscrupulous stockholder group. Standards of fair conduct and accurate disclosure which were contemplated by the statute were found wanting in many instances from testimonies given before the Senate Banking and Currency Committee and its Subcommittee on Securities.⁹

The knowledge gained from two years of almost incessant Commission improvising and the interpolation of the proxy rules administratively, taken in conjunction with testimonies, proceedings, and reports of the Senate Banking and Currency Committee, resulted in a comprehensive revision of the rules. These were completed during December 1955, were promulgated January 17, 1956, and became effective

⁶ According to Mr. George Brownell of American Telephone & Telegraph Company, 75 per cent of all proposals made by stockholders within a four year period came from three individual shareholders. See "When is a Stockholder a Nuisance?" *Fortune*, March, 1954, p. 8. Speaking before the Federal Bar Association of New York, New Jersey and Connecticut, Mr. Manuel P. Cohen, Adviser to the Commission stated: "... in the fiscal year ended June 30, 1959, the managements of 99 issuers included in their proxy statements a total of 156 stockholder proposals submitted by 48 different persons. There were also considered a fair number of proposals which were excluded for one reason or another." This address was published by Georgeson & Co. See *Trends in Management-Stockholder Relations*, Georgeson & Co., December, 1959.

⁷ *The Wall Street Journal*, January 6, 1954.

⁸ Senate Committee Report No. 1455, 73d Cong., 2d Sess., p. 77.

⁹ During these hearings, Robert R. Young unveiled what he called "the cleverest deal of my financial history." This "deal" involved 800,000 shares of Central Stock owned by Chesapeake & Ohio Railroad, but held in trust by the Chase National Bank. "We made \$10 million on it without a dollar of risk," he boasted, "and I'm proud of it. It was one of the most attractive deals I ever made." Observed Senator Lehman warily, "It's a little too clever ... I'd hate to think it was prevalent on Wall Street today." Another common abuse exposed by these hearings was the undisclosed principals or "fronts." See *The Wall Street Journal*, June 10, 1955.

January 30, 1956. The general effect of this action by the Commission has been to strengthen the disclosure principle. Specific requirements with respect to contests are set forth in a new Rule X-14A-11 titled "Special Provisions Applicable to Election Contests." The information required to be included is set forth in a new schedule 14B which contains only five "items,"¹⁰ including a signature of the participant. It is a rather short form which perhaps belies its searching questions and the quantity and quality of information it is designed to elicit. Moreover, the term "participant" has been broadened to include the group instigating the contest or anyone contributing more than \$500, lending money, or furnishing credit for the purpose of financing, or otherwise influencing the contest.¹¹ It is incumbent upon this group to file with the Commission specific information regarding their identity and background, their interest in securities of the issuer, and other kindred items. For the first time uniform ground rules governing pre-proxy statement solicitations are established, and requirements for the election or removal of directors by a contest are defined in precise terms. "Solicit" and "solicitation" are also redefined in a more realistic manner than they were before; consequently, both sides are now responsible to the proxy rules.

Conclusions

Recent contested elections have tended to strengthen the proxy rules. They are probably the most useful of all disclosure devices established by the various Acts. There are sinister forces¹² at work tending to obstruct the operation of the Commission in its efforts to keep both dishonesty and manipulation in the securities market at a minimum. Defects are discernible and loopholes in the enactments need closing.¹³ Some of these are discussed below:

(a) Perhaps the greatest abuse today lies in the large number of exempt companies. Section 14(a) extends only to registered securities. Legislation¹⁴ has been introduced in the Congress to bring approximately 1,205 exempt corporations under the financial reporting, proxy solicitation, and "insider trading" provisions of the Exchange Act. It is important to note, however, that efforts to correct this situation and bring securities traded in the over-the-

counter markets under the jurisdiction of the Commission have not been successful.¹⁵

(b) Neither Commission Rules and Regulations nor state enabling statutes control voting in street name stock.¹⁶ The voting of this stock is governed by rules treating conduct of member firms of a particular stock exchange.¹⁷ Specifically, reference is made to the ten-day rules which require member firms to transmit (for a fee) proxy solicitation material to the beneficial owners and ask for voting instruction. At the end of this time interval, the member firm is at liberty to vote the stock as it desires provided a "major proposal" is not involved and specific voting instructions have not been received from the beneficial owner.

(c) The Commission does not have authority to compel a solicitation. Only in the event the managements of listed corporations choose to solicit proxies does the Commission have jurisdiction. Proxy solicitation has recently been made a condition precedent to stock listing with the New York Stock Exchange. After December 31, 1961, all corporations whose shares are traded on the Big Board must solicit proxies. However, other exchanges have not adopted a similar policy. Consequently, a great many¹⁸ publicly-owned companies do not make any attempt to poll the opinion of the rank-and-file stockholder.

(d) Foreign ownership of stock in American business corporations which are involved in contested elections poses special problems for the Commission in its endeavor to enforce the proxy regulations and other rules. At one time Securities and Exchange Commission Chairman Armstrong seemed to endorse legislation¹⁹ that would deny voting rights to foreign owners of stock involved in proxy contests unless they met the disclosure rules required of United States participants. It has been estimated that roughly 3.5 per cent²⁰ of the United States business corporation stock which is publicly traded is held by foreign nationals. By the use of

15 The following remarks were made on April 16, 1959, by Securities and Exchange Commission Chairman Edward N. Gadsby before the American Society of Corporate Secretaries, Inc.:

The Fulbright Bill has not as yet been reintroduced in this Congress. Whether this situation will continue, I do not know. There is no visible inclination on the part of the Commission itself to submit this legislation for introduction, though, as I said last year, it is convinced that fair and effective control of the securities market and adequate protection to the investing public can be achieved in no other way. There are various reasons for this attitude, not the least of which is a reluctance to recommend legislation, which to stand much chance of passage, would doubtless be essentially emasculated by meaningless exceptions.

16 In May 1955, the Commission had under advisement the feasibility of adopting additional rules which would bring "street name stock" under its proxy rules. These rules were considered to have far-reaching implications, however, and were abandoned. See Securities Exchange Act, Release No. 1566, May 5, 1955.

17 See New York Stock Exchange Proxy Rules 870-875 inclusive. The Proxy Rules of the American Stock Exchange are identical, except that they are numbered Rules 575-580.

18 In the fiscal year ended June 30, 1959, an estimated 419 companies (21 per cent of those having voting shares registered and listed on an exchange) did not solicit proxies. See Manuel F. Cohen, *loc. cit.*, p. 3. See, also, Lewis D. and John J. Gilbert, *Twentieth Annual Report of Stockholder Activities at Corporation Meetings*, 1959, p. 211.

19 See *The Wall Street Journal*, April 10, 1957, p. 4.

20 *Ibid.*, p. 4.

10 For an interesting discussion of Schedule 14B see, *Trends in Management-Stockholder Relations*, *op. cit.*, February, 1959.

11 Mr. Wolfson admitted to the Senate Committee that he had made loans to undisclosed people for purchase of Montgomery Ward stock.

12 For a discussion of these forces by Commission Chairman Gadsby, see "SEC's Aim: Keep the Boom Honest," *Business Week*, *loc. cit.*, pp. 101, 103-104.

13 A variety of technical amendments aimed at changing over eighty sections of the various laws coming under the Commission's jurisdiction are now pending before Congress. By and large these amendments would tie up loose ends, clarify some areas and strengthen other parts of these enactments. See *Ibid.*, p. 104.

14 S. 2054, H. R. 7045. The Commission has found the proxy soliciting material of unlisted companies to be "wholly inadequate" and has supported this additional legislation. See *The Wall Street Journal*, May 21, 1956, p. 11.

the Swiss institutions the disclosure requirements are circumvented. However, the jurisdiction of the Commission ends at the border of the United States. Hence, problems of this nature are not amenable to obvious legislative solution. For example, a Swiss bank might in good faith disclose the identity of the client and other information, but how is the Commission to ascertain that the truth is being told? A treaty between the United States and Switzerland might be a more appropriate way for settling this problem.

(e) A solicitor is at liberty either to mail or otherwise to employ proxy material filed with the commission within ten days following such filing. Two business days are required in respect to follow-up materials. Obviously, there is need for an expeditious handling of these. Such a problem appears awesome when one considers the fact that proxy so-

licitations have a market seasonal peak.²¹ There were 1,975 relevant solicitations filed with the Commission during the fiscal year ended June 30, 1959.²² Most proxy statements relate to unopposed solicitations by the management seeking proxies for its reelection or authorization for various kinds of corporate action or assent.

(f) Activities of the "boiler room operators"²³ and kindred practices²⁴ are despicable. The boiler room operations constitute a form of high pressure brokerage house primarily by telephone. Apparently the larger boiler rooms have been brought under control by the Commission. They have been replaced however, by small roving operators who sell a spurious issue or two and then disappear.²⁵ Finally, it has been alleged that a number of registered broker-dealer firms have failed to observe the Commission bookkeeping and other rules.²⁶

21 The four month period February through May is popularly known as the "proxy season," as approximately two thirds of all proxy statements filed with the Commission are during that time interval. For an excellent discussion concerning the magnitude of this problem, see "Proxy Solicitation—The Brokerage Problem," *Trends In Management-Stockholder Relations*, June, 1959; "The Brokerage Problem—Suggested Solutions," *Trends In Management-Stockholder Relations*, July, 1959; "Proxy Predictions," *Trends In Management-Stockholder Relations*, January, 1960.

22 See Cohen, loc. cit., p. 4. During 1941, there were 1,700 individuals working for the Commission—an all time high. That number declined to 700 during 1955. For the fiscal year ended June 30, 1959, there were roughly 916 individuals in its employ, and the Commission had an operating budget of \$7.7 million. See *Business Week*, loc. cit., p. 103.

23 Chairman Armstrong requested Congressional authority to deal with this type of abuse. See *The Wall Street Journal*, February 26, 1957, p. 18.

24 Market manipulation (that is, a trader stands ready and willing to enter into either a purchase or sale transaction in a given security but usually culminates the market activity with a short sale position) and so-called "con man" techniques are indicative. It is said that "Lowell Birrell has wrecked more corporations, duped more investors, and engineered the theft of more money than any other American of this century." See T. A. Wise, and Spencer Klaw, "The Spoilers: 1 The World of Lowell Birrell," *Fortune*, November 1959, pp. 170-172, ff. During the summer of 1958 he was indicted for having swindled \$14 million worth of stock in companies he had dominated. He currently resides in Brazil—a country that does not have an extradition treaty with the United States. Other members of his predatory crew include Alexander L. Guterman (also indicted for crimes relating to alleged financial dealings in Bon Ami Company, United Dye & Chemical, and the Mutual Broadcasting System^(†) that include stock manipulation, violation of the Federal banking laws, and failure to register as an agent of the Dominican Republic. Birrell and Guterman were co-defendants in the case involving the plundering of the assets of the United Dye & Chemical Corporation), Serge Rubenstein (deceased), Virgil D. Dardi, Earle Belle, and Ben Jack Cagle. Investigators believe this group and their associates have ruined financially seventy-five or more business corporations, and have caused losses to investors that aggregate \$100 million. For an interesting account of the activities of Alexander Guterman see: T. A. Wise, "The Spoilers: 2 The World of Alexander Guterman," *Fortune*, December 1959, pp. 144-145, ff. During 1956, he simultaneously controlled the stock, and was the chief executive officer of the United Dye & Chemical Corporation, Bon Ami Company, and the F. L. Jacobs Company. Each corporation was listed on the Big Board at that time. Stocks of Bon Ami and United Dye have been delisted from the Exchange, and trading in Jacobs stock has been halted by the SEC since December, 1958. On January 27, 1960, Guterman was convicted on charges of conspiracy and willfully failing to file the required financial reports with the Securities and Exchange Commission and the Exchange when he was chairman and president of F. L. Jacobs. He was sentenced on February 17, 1960, by Federal District (New York) Judge Lloyd F. MacMahon to four years and eleven months in prison and given a maximum fine of \$160,000. He was described by Judge MacMahon as a "... freebooter who raided the seas of a free economy ... resorted to cloaking devices, mysterious banking and financial transactions ... and a maze of loans and credit arrangements which resulted in the swindling of the Jacobs company." It could be inferred from the evidence that the company's assets may be on deposit "... somewhere in the labyrinth of Switzerland or Tangiers"; and that if Guterman were to be released on bail he would be "... almost certain to flee." Arguing for committing Guterman, U. S. Attorney Jerome J. Londin stated it would be "... an affront to justice to see a photo of Guterman playing gin rummy with Birrell in Brazil." See *The Wall Street Journal*, February 18, 1960, p. 18. For an interesting account of the cloak and dagger goings on at the H. L. Green Company, Inc., by one Maurice Olen and associates from Mobile, Alabama, see T. A. Wise, "The Looting of H. L. Green,"

Fortune, March 1960, pp. 142-145, ff.

(†) Mutual Broadcasting System, Inc., offered its 700 creditors ten cents on the dollar for the \$3.2 million it owed them. It was indebted to the American Telephone & Telegraph Company in the sum of \$508,000. See *Business Week*, Finance section, July 4, 1959, p. 26, and July 18, 1959, p. 45.

25 Recent operations by one Chester Gray caused the Commission to issue a special warning to potential investors. Apparently Gray was trying either to sell or secure loans on stock of a company identified as Imperial Petroleum. Except for a Nevada company whose charter was revoked in 1927 for nonpayment of taxes, the search for an Imperial Petroleum company has been of no consequence. The Commission was alerted to this operator by a broker-dealer firm in Miami, Florida, to whom Gray had previously sought to sell 50,000 shares of Imperial Petroleum stock. The securities were registered in the name of Chester Gray. A certain Miami bank loaned him \$25,000 and stock of said corporation was taken as collateral. An increasing number of transactions in the shares of Imperial Petroleum stock registered to Gray were entered into the national quotation sheets by telephone from Montreal by one C. Joseph Tritt, a New York broker-dealer whose SEC registration was revoked during 1958. See "Unlisted Stock, 'Mr. Gray' Prompt SEC Warning," *The Wall Street Journal*, October 15, 1959, p. 15.

The Commission is searching for two men identified as Bertram Goldsmith and T. J. Ross. Wall Street was recently deluged with orders to buy the fast-moving stock of the Natus Corporation. This operation seems to carry all the earmarks of a move to churn up the market price in this security. Both the identity of these individuals and their purpose remains a mystery. Speaking of the inadequacy of the various state "blue sky laws" as a means to protect the unwary investor, Mr. Paul Windels, Jr., administrator of the SEC's New York office, said: "Only a U. S. agency ... can check the ramifications of a company that may be based in Pittsburgh, incorporated in Delaware, owned by a Liechtenstein corporation, and banking via a numbered Swiss account." See "The Watchdog's Bite," *Newsweek*, Business section, March 28, 1960, pp. 73-74.

A Federal grand jury in New York City indicted twenty individuals and firms on charges of conspiracy and fraud in the alleged sale of 750,000 unregistered shares of Gulf Coast Leaseholds, Inc., a Houston oil and gas exploration company. According to the indictment, John Van Allen, New York; Brandel Trust, a Liechtenstein corporation with headquarters in Zurich, Switzerland; and Paul Hagenbach, a Swiss attorney and director of Brandel Trust, bought 750,000 shares from the Gulf Coast Leaseholds, Inc., during 1954 and 1955 at prices ranging from \$1 to \$3 each. These shares were acquired with the understanding that they were to be retained for investment purposes and were not to be resold to the public. Roughly one-third of the securities were sold at prices ranging from \$10 to \$14 a share "by long-distance telephone solicitation to small investors throughout the United States." Within a year, the price of the stock rose from \$2 a share to \$16 a share. It later declined in value to \$2 each. See *The Wall Street Journal*, March 29, 1960, p. 9.

26 The case involving the Penn-Texas Corporation is interesting. In a single year the stock of this company advanced from \$11.12½ to \$22.87 and declined to \$2.87½. A small Stock Exchange firm was tipping the shares around the highs, and was also receiving a fee as a financial advisor to Penn-Texas. This relationship was not disclosed in the initial advertisements which were issued for the purposes of promoting the sale of the stock in the Penn-Texas Corporation.

Sydney L. Albert, former president of the Bellanca Corporation, recently pleaded innocent to an indictment charging him with manipulating the price of the company's stock during 1955 and 1956. He is also charged with selling unregistered shares of the company's stock, failing to file reports on his Bellanca stockholdings with the Securities and Exchange Commission and testifying falsely to investigators. Bellanca's stock was delisted from the American Stock Exchange in June, 1958. See *The Wall Street Journal*, March 23, 1960, p. 10.

U. S. STUDY COMMISSION

SOUTHEAST RIVER BASINS

by

George E. Tomlinson

The U. S. Study Commission, Southeast River Basins, is a new venture in cooperative planning to facilitate the optimum development of the land and water resources in portions of Alabama, Florida, South Carolina, and most of Georgia. This Commission was established by an act of Congress, Public Law 85-850, late in 1958. The authorizing act specifies how the Commission is to be organized, what its purposes are, and how it is to function. The Commission itself has eleven members appointed by President Eisenhower. These include a chairman from the area, a member from and selected by the governor of each of the states of Alabama, Florida, Georgia, and South Carolina, and a member from each of the principal Federal land and water agencies. The Federal agencies represented are the Departments of Agriculture, the Army, Commerce, Health, Education, and Welfare, the Interior, and the Federal Power Commission. Mr. J. W. Woodruff, Jr. of Columbus, Georgia, is Chairman, and Major General F. M. Albrecht, Division Engineer, South Atlantic Division, is Vice Chairman. Mr. Lester S. Moody of Augusta is the Commissioner from the State of Georgia.

The language of the Act authorizes the establishment of a Commission which, for the first time, can give full consideration to all factors related to land and water resources planning, uninhibited by traditional agency or parochial approaches and loyalties. The appointment of some of the commissioners from the various Federal agencies unites in the Commission individuals with extensive knowledge and experience in the many fields of resources planning. It leaves these individuals free to use this knowledge and experience without the limitations imposed by traditional agency approaches. Beyond this, the appointment of commissioners from each of the four states establishes the states as equal partners in the planning.

While the Act provides for the formulation of a comprehensive and coordinated plan, it also specifically requires the Commission to give consideration to:

- (1) flood control and prevention
- (2) domestic and municipal water supplies
- (3) the improvement and safeguarding of navigation
- (4) the reclamation and irrigation of land, including drainage
- (5) possibilities of hydroelectric power and industrial development and utilization



SOUTHEAST RIVER BASINS



- (6) soil conservation and utilization
- (7) forest conservation and utilization
- (8) preservation, protection, and enhancement of fish and wildlife resources
- (9) the development of recreation
- (10) salinity and sediment control
- (11) pollution abatement and the protection of public health
- (12) such other beneficial and useful purposes not herein enumerated.

Thus, the charter is very broad.

It is also stated in the Act that it shall be the policy of the Congress to recognize the primary responsibilities of the states and local interests in developing water supplies for domestic, municipal, industrial, and other purposes, and that the Federal government should participate and cooperate with the states and local interests in developing such water supplies in connection with the construction, maintenance, and operation of Federal navigation, flood control, irrigation, and multiple-purpose projects. The Commission is to seek to secure maximum public benefits for the region and the nation consistent with the specific directions contained in the Act.

Throughout the Act, reference is made to both land and water. There have been many authorizations to study the water resources of an area and a number of them to study water and related land resources, but this Act makes no distinction in the treatment of these two resources.

The area to be studied, which is shown on the accompanying map, covers about 86,000 square miles in the states of Alabama, Florida, Georgia, and South Carolina and includes a little less than 200 square miles of North Carolina. In terms of river basins, the principal ones involved are the Altamaha, Apalachicola, Chattahoochee, Choctawhatchee, Escambia, Flint, Nassau, Ochlockonee, Ogeechee, Ocmulgee, Oconee, Perdido, St. Marys, Satilla, Savannah, and Suwannee.

The Commission is clearly described in the law as a planning group with no future responsibilities for construction or operation; and, although no time limit is stipulated therein for completing the report, the general program established so far is to expedite the work and prepare the report as soon as possible.

The eleven members of the Commission are directly responsible for all policy aspects and are directed to report from time to time to their respective departments, agencies, or governors on the work of the Commission. At present, the commissioners meet monthly to transact necessary business related to the Commission's work, and at that time they are able to review the development and progress achieved during the interim period. Questions requiring policy judgment and decision are also resolved at such meetings. The Chairman is charged with the administrative job of getting the work done, the appointment and supervision of personnel and staff, the distribution of business, and the use and expenditure of funds; all within the general policies established by the Commission.

One of the first functions of the Commission was the establishment of a small staff of engineers, economists, conservationists, and other specialists to carry out the duties expressed in the authorizing legislation. The recruitment of such a staff of specialists has taken time; however, to date considerable progress has been made. The present staff numbers thirty-five, including professional engineers, economists, and conservationists, as well as administrative, non-professional, and clerical persons. This group, with the cooperation of Federal, state, and local agencies, is carrying out the work program which has been established. To familiarize itself with the problems of the Southeast, the Commission and staff conducted a series of four public hearings in November 1959. These hearings were held in Dothan, Alabama; Tallahassee, Florida; Macon, Georgia; and Anderson, South Carolina. It not only was an opportunity to obtain a firsthand knowledge of the land and water resources problems, but it also gave the Commission a chance to explain to interested persons the organization functions and objectives of the Study Commission itself. A part of the concept in formulating the Commission was that it would act as a guiding and coordinating body; and, insofar as possible, it would utilize all available basic data from the various Federal, state, and local agencies. Where special studies are necessary, they should be performed by one of these agencies on a reimbursable basis. This program the Commission has made and is making every effort to implement.

Most of the actual work is being or will be done under cooperative agreements with the various agencies or institutions most appropriately competent to perform such studies. Agencies or institutions with which agreements or contracts have been arranged include the Federal Departments of Agriculture, Army, Interior, Health, Education, and Welfare, Commerce, and the Federal Power Commission, and educational institutions in the area.

The Study Commission staff considers four overall steps will be required to get the job done. The first is that of taking basic inventory of the resources; second, analyzing and projecting needs, as of certain future dates; third, preparing single-purpose alternative developments for each of the authorized purposes; and fourth, formulating a single comprehensive plan. Although these are enumerated as four steps, they are not distinct steps in the sense that they are consecutive. Actually, the steps are phases that will be proceeding concurrently in many instances.

Part of the basic data phase will require making population projections of the area for the year 1975 and the year 2000, and using several assumptions as to rates of development. Firm estimates are expected by next summer, and some preliminary figures for interim use should be available soon. Analysis will be made of these projections of population

as to kind and distribution. Use of population forecasts, on the above time levels, will be made to estimate the various needs and requirements in the eleven functions, for 1975 and 2000. In each case, determination of requirements will require joint study to be sure that the assumptions and criteria are sound. For example, in the case of power requirements, knowledge as to what industry will be established will be necessary. Conversely, in order to determine what industry will be established, information on the availability of a number of items such as power and its cost will be required. When power requirements are discussed, some fundamental assumptions as to rates must be made because such requirements will vary with variations in rates. In addition, estimating the industrial growth can become very complex because of the interrelationship and overlapping dependency of the great number of industries. Thus, in some cases, solutions will be reached only after a series of approximations and adjustments, which call for the exercise of the best judgment in a particular instance. Close liaison has to be maintained at all times with those agencies performing the studies and with local experts and consultants whose specialized knowledge is needed.

After the requirements are determined, single purpose alternative solutions will be developed for meeting the requirements in each of the eleven functions enumerated in the Act. In many cases, the computed needs or requirements will not be determined by considering only the Southeastern Basins area. For instance, as close as the area is located to coal deposits in Alabama and Tennessee and the gas and oil developments to the south and west, it will probably import power in considerable quantities in the future. Consequently, the new hydroelectric power developed here will most likely be utilized for firming peak demands. By the same token, the forestry plans provided will include provisions for more slash pine and other timber than is needed in this geographic area. Thus, the conclusions would include the needs of this area from a national point of view and would anticipate the export of forest products to other areas. The problem is not merely one of staking out a few simple criteria, employing subprofessional employees to turn the crank on the calculating machines, and arriving at an answer for the requirements. Acceptable criteria must be established on which to base these projected requirements.

After the ultimate plan is worked out, it will be programmed by items. Some items will be included in the ultimate plan, even if they are not considered economical or justified until the general development reaches a certain point. Thus, it must be kept in mind that economic justification has a relationship to the time when an item is to be considered for development. This is not to imply that the study will depart from accepted concepts. An acid test will be applied in analyzing each separable segment: First, to see if it is justified in terms of costs and benefits; sec-

ond, to see if there is a more economical way of providing a more satisfactorily available alternative. However, consideration will be given not only to what is justifiable today, five years from now, ten years, etc., but will include in the whole long-range program anything which is found to be justified during the period of the analysis; and conditions will be noted which would have to prevail before any marginal item could be justified for actual construction. The Commission itself has the final responsibility for the recommendations to be included in the report.

As the study progresses, the staff will continue coordinating its studies at the local level with all interested agencies engaged in land and water development work. This is being done through informal work groups which include agency representatives who advise and prepare portions of the material needed in the study. It is also done by informal comments from the local cooperating agencies on work plans and other material while the study is underway. Formal review of the finished report will be made by all of the states and Federal agencies after the report is put together. Their comments will be considered by the Commission and will accompany the final report of the Commission when it is transmitted to the President and to the Congress.

The Commission has received excellent cooperation from all the Federal and state agencies, state governments, and participating institutions. Close liaison is being maintained in all Federal agency and state levels, and public response to the four hearings held by the Commission during November was most gratifying. The appointment of commissioners from each of the southeastern states on a level commensurate with the Federal appointees enables the Commission to resolve conflicts and inconsistencies among the various laws and procedures regulating state participation in such a planning program, and it establishes the states as equal partners in responsibility for adequate planning.

As a representative of the President said at the initial meeting of the Commission:

Various groups have been organized to make similar integrated and cooperative investigations, studies and surveys. None of these cooperative groups have been successful in achieving broad fully integrated land and water resources planning. The United States Study Commission for the Southeast has an opportunity to avoid the pitfalls which plagued its predecessors and to provide a calibre of broad, integrated natural resources planning not heretofore achieved.

It is the full intent of this Commission to achieve such a plan, and with the freedom and flexibility to adopt its own basic approaches and to discard those procedures, practices, and criteria which experience has shown to be defective, ineffective, or unworkable, it has the mandate to proceed.

By continuing the impetus already established in initiating and arranging the studies, the provisions of Public Law 85-850 can be met satisfactorily in the final analysis.

February, 1960

ATLANTA AREA ECONOMIC INDICATORS

ITEM	February 1960	January 1960	% Change	February 1959	% Change	% Change Two months '60 over Two months '59
EMPLOYMENT						
Job Insurance (Unemployment) Payments	\$385,485	\$402,625	-4.3	\$417,674	-7.7	-18.5
Job Insurance Claimants	7,414	7,829	-5.3	8,076	-8.2	-7.5*
Total Non-Ag. Employment	358,500	361,000r	-0.7	343,850r	+4.3	+3.8*
Manufacturing Employment	86,100	86,350r	-0.3	84,200	+2.3	+1.8*
Average Weekly Earnings, Factory Workers	\$79.72	\$83.21r	-4.2	\$79.19	+0.7	+2.6*
Average Weekly Hours, Factory Workers	38.7	40.2	-3.7	40.2r	-3.7	-2.1*
Index of Help Wanted Ads (Seasonally adjusted, 1947-49 Avg. = 100)	169.1	178.5	-5.3	156.0	+8.4	+15.3
CONSTRUCTION						
Number of Building Permits§	614	556	+10.5	591	+3.9	-5.3
Value of Building Permits§	\$4,453,632	\$7,502,595	-40.6	\$20,588,611	-78.4	-58.2
Employees	19,000	20,000r	-5.0	20,800r	-8.7	-8.2*
FINANCIAL▲						
Bank Debits (Millions)	\$1,982.7	\$2,049.9	-3.3	\$1,735.8r	+14.2	+10.9
Bank Deposits (Millions)	\$1,253.3	\$1,260.8	-0.6	\$1,218.3	+2.9	+2.3**
OTHER						
Department Store Sales Index	167	178r	-6.2	161	+3.7	+6.2†
Retail Food Price Index	114.1	114.5	-0.4	115.5	-1.2	-1.3**
Number of Telephones in Service	365,019	362,913	+0.6	327,523	+11.4	+11.5**

r—Revised

§City of Atlanta only.

*Average month

N. A.—Not Available

**End of period

†—Based on retail dollar amounts

▲Data from members of the Federal Reserve System only.

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

ATLANTA BUSINESS ACTIVITY

RESIDENTIAL CONSTRUCTION

BACK TO 1957?

New housing in the city of Atlanta, as measured by the number of one-family residential building permits issued by the office of the Inspector of Buildings, after setting a new record of 2,830 permits in 1959, appears to be drifting back down toward the dismal level experienced by Atlanta and the nation as a whole in 1957 (See Figure 1). In that year only 1,208 new houses were started as compared with a five-year average of about 2,000.

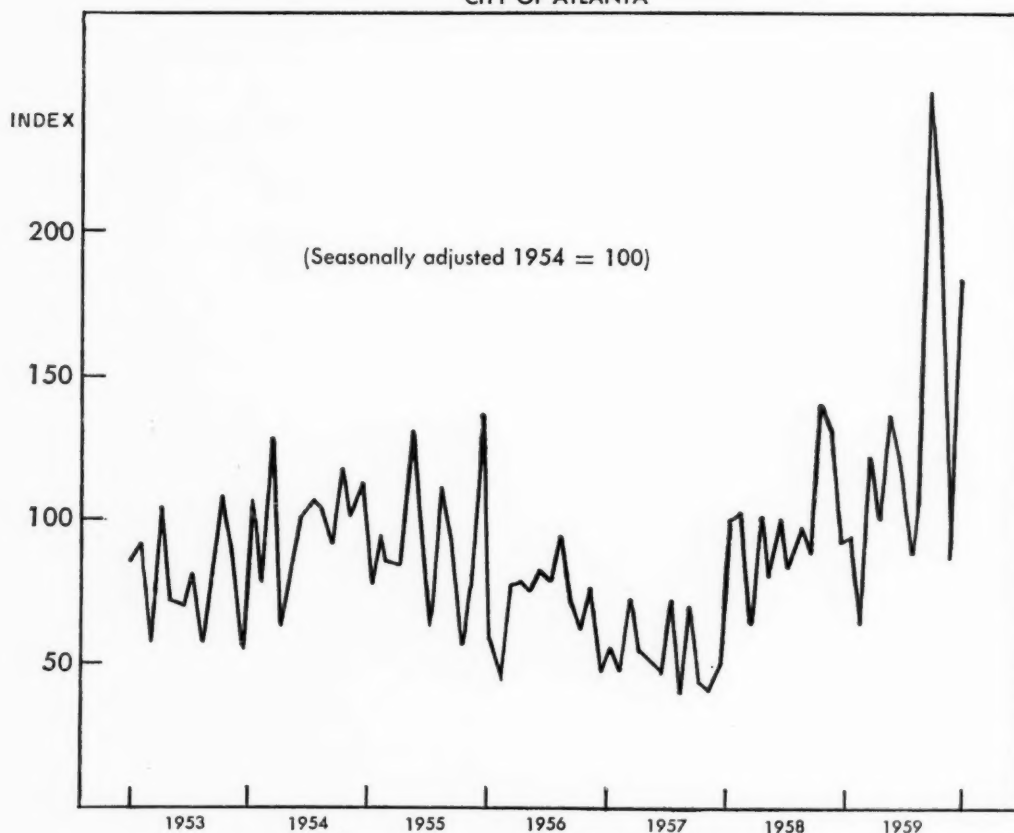
Seasonally adjusted figures for the first quarter of 1960 reveal that 457 permits were issued during the months of January, February, and March as compared with 579, 754, 1,014, and 995 permits issued during the four quarters of 1959 respectively.

At this rate, total housing begun in Atlanta for the year 1960 will be 35 per cent under the 1959 total. Compared with the first quarter of 1959 it is already down 21 per cent.

Atlantans can take some comfort in the fact that the national picture is slightly worse, housing starts in the nation having drifted down from a seasonally adjusted annual rate of 1,434,000 in April 1959, to 1,210,000 in January of this year.

Considerable mystery surrounds the true cause of this problem. The culprit has been named variously as rising building costs (up 35 per cent over 1949 as compared with a 20 per cent increase in the cost of living), a slackened demand for housing which is not connected with the cost problem, and a

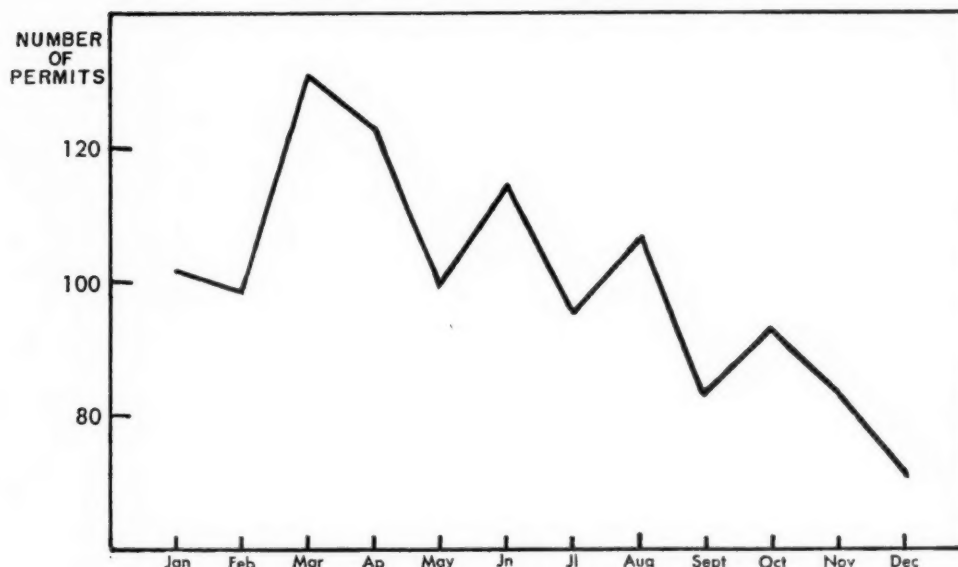
Figure 1
NUMBER OF ONE-FAMILY RESIDENTIAL BUILDING PERMITS
CITY OF ATLANTA



Source: Inspector of Buildings Office, City of Atlanta.

Figure 2

SEASONAL PATTERN OF ONE-FAMILY RESIDENTIAL BUILDING PERMITS
CITY OF ATLANTA BASED ON YEARS 1952-1959



Source: Inspector of Buildings Office, City of Atlanta.

tightness of mortgage money. It is hard to pin down the demand side of the picture since it is composed of so many non-quantitative factors, but there seems no question about the fact that tight money has been creeping up on the building industry since mid-1958.

After the general business decline in the latter part of 1957, the money market, aided to some extent by the Federal National Mortgage Association, began to ease itself, and residential housing turned upward, setting a new record for the city and nation in 1959.

However, as early as mid-1958, the squeeze between the demand for mortgage funds and the supply of funds available began pushing mortgage interest rates upward. The conventional mortgage rate moved steadily from 5.5 per cent in mid-1958 to 6.1 per cent in late 1959. But other interest rates—corporate securities, Treasury Bills, and U. S. Long Terms, were rising even faster. Thus, despite specific government action, loanable funds were being attracted away from home mortgages to more attractive alternatives and Federally underwritten loans began to shrink. This same pattern prevailed throughout 1959 and has at last, it seems, begun to show its effect on new starts in Atlanta.

Will this downward drift continue? The Federal Reserve Bank of Atlanta recently asked builders in the Sixth District what they were planning in the way of starts for 1960. The report states:

They indicated that they plan to build 12 per cent more houses in 1960 than they actually started in 1959. This planned increase is considerably smaller than that reported in early 1959, and when adjusted for the usual upward bias may be interpreted to mean a

slight decline. Of the total number of houses planned, District builders had advance commitments for one-fourth, about the same percentage as a year ago.¹

Current developments indicate that Atlanta is experiencing more than a "slight decline."

THE SEASONAL PATTERN OF RESIDENTIAL
CONSTRUCTION

House building in Atlanta historically has evidenced a pattern of starting high in March and seeing steadily downward to a yearly low in December. This may be seen in Figure 2, which is based on a monthly average² of the number of one-family residential permits issued since 1952.

It is interesting to note, however, that the number of permits for some months varies widely from year to year. For example, the adjusted number of permits for May varies from 145 in 1955 to 75 in 1958. Thus, the monthly points in Figure 2 merely express the amount that the preponderance of points deviates from the average number of permits issued in any month of the year.

J. R. O.

¹ Alfred P. Johnson, "A More Stable Mortgage Market," Monthly Review, March 1960, Federal Reserve Bank of Atlanta, p. 3.

² The average was determined from the number of permits expressed as a per cent of a 12 month centered moving average. This method has the advantage of expressing the number of permits as fluctuations from a "norm" rather than as an absolute number of permits.

THE SOUTHEASTERN CORNER

by

Warren A. Walker



INDUSTRY POTENTIALS IN THE SOUTH PART I

It has been well established that one of the basic economic weaknesses of the southeastern United States is the fact that there are a disproportionate number of low-value-added type industries. An analysis of this problem divides itself into two basic questions. One, why did this situation develop? Two, what can be done to correct this disequilibrium?

HISTORICAL ORIGINS

In Georgia, in particular, and elsewhere in the southern states to a degree, the cash crop system has long been a major economic factor. Though a diversified pattern of agriculture marked the very early colonial period in Georgia, that pattern was soon changed to specialization in the production of cotton, or in some areas tobacco, and the collateral industries that accompany diversified agriculture never had a chance to develop.

Another factor was, of course, slave labor. Not because it was slave *ipso facto*, but because it was unskilled labor when it entered the country. The only skill many of the slaves ever learned related to the production of cotton.

In the North a different pattern existed. The majority of the immigrants were of two types. They were individuals who had worked in diversified agriculture in Europe, or they had already worked in an English or European factory. Naturally, each of these patterns had a strong tendency to be self-perpetuating. In the North, available labor supply

encouraged the organization of factories. Available factory employment encouraged more skilled immigrants.

In the South, just the opposite pattern prevailed. In truth, there was really very little reason to encourage change. For many years King Cotton produced a good cash return, and it appeared that it would continue to do so.

THE BEGINNINGS OF SOUTHERN INDUSTRY

The beginnings of the textile industry in the southern states have been considered in some detail in a previous article.¹ As a practical matter, textiles were to dominate southern industry for many years. This was a natural sort of development. The southern states still had little skilled labor, but only limited skills were required for the majority of textile operations. Such skills as were necessary could be taught quickly at minimum cost.

It must be kept in mind that the foregoing comments are generalities. In metropolitan areas many exceptions could be found to area trends, both as to labor force and industry patterns. Several of these exceptions were technological in nature and are significant because thousands of workers were involved. One of these was the practice of having final assembly of cars and trucks on a regional basis.

¹ "The Southeastern Corner," *The Atlanta Economic Review*, January 1958.

Another was the discovery by Dr. Herty that slack pine could be used in the production of paper.

MORE RECENT DEVELOPMENTS

World War II was a major factor in changing the pattern of southern industry. From the military point of view it seemed desirable to have a maximum geographic dispersion of industry, even if the economic factors were less than ideal. The result of this policy was the establishment of industrial plants in places where ordinarily they would never have been established, and workers received training and experience under a crash program which they would never have received otherwise.

By the end of hostilities a new balance had been achieved. Such errors as had been made from the standpoint of economics had been largely corrected under the pressures of a war economy, and the slowdown in the production of military material produced a reserve pool of trained labor. Another factor, of course, was the large number of young people from the southern states who had received instruction at the technical schools of the various military services.

If labor were the only factor in plant location the small community would be in a very difficult position. Happily for the small community, it is not the only factor. Some industries cannot afford the high land costs in metropolitan areas. Others by their nature generate waste products that cannot be conveniently disposed of in a densely populated area. For others, distributions costs are low and market orientation becomes a secondary consideration.

WOOD PARTICLE BOARD — AN INDUSTRY FOR DEVELOPMENT

As indicated in an earlier article,² timber is one of the most abundant resources of Georgia and the Southeast. Approximately 50 per cent of all agricultural land is used for growing trees. The various types of sawmill operations produce a considerable quantity of residue products, which at the present time are very ineffectively utilized.

About a year and a half ago a publication of the Georgia Forest Research Council made the following observation: "In north Georgia the bulk of shavings can be sold to poultrymen for broiler house litter. In other parts of Georgia, shavings not used to fire the boiler are often disposed of by burning or are left in piles to rot."³

In a report prepared for the Georgia Department of Commerce by the Engineering Experiment Station on wood particle board, a number of interesting observations were made. "Georgia provides the best

wood materials — yellow pine and gum — for high quality flakeboard production." "Georgia itself has a market potential of 9 to 10 million square feet a year for particle board." "A plant in central or southern Georgia would strategically accommodate a market covering Georgia, Florida and Alabama."⁴ In spite of all these favorable circumstances, no such plant exists in either Georgia or the two adjoining states.

This is not to say that there is no production of this type in the Southeast, but merely that the most efficient distribution of plants has not yet been achieved. In fact, there are several such plants in North Carolina, but most of the remainder are located on the West Coast. Even with the plants located in North Carolina, substantial cost reductions could be realized in Georgia, Florida, and Alabama through a more centrally located plant. In locating any plant the cost of getting the raw materials to the site must be a major consideration. For a plant of the type under consideration the cost could be reduced to favorable limits. In addition, unlike a mineral extraction operation, the raw materials are being constantly replaced.

In the survey previously cited, two Georgia areas were selected for specific analysis. These were the Thomaston and Albany areas. On the basis of this analysis it was determined that either of these locations would have a sufficient supply of wood residue to provide the needs of two such plants within a 50-mile radius.

There are many other locations that would have adequate supplies for an operation of this type on a smaller scale. It should be noted, however, that such a plant would in all probability have higher unit costs. As in some other types of manufacturing there are certain economies of scale involved. Another consideration is that, ideally, such a plant should not be too close to operations involving competitive use of the same raw materials, such as pulp mills.

The market potentials for wood particle board are very attractive. It has been estimated that more than 6,000,000 square feet would be utilized in the furniture industries of Georgia alone (not including potential sales in Florida and Alabama). Approximately an additional 1,700,000 square feet would be used in cabinet wood.

The technology of wood particle board is still in the process of development. It is already competitive with veneer for certain applications and will probably become more so as soon as certain physical characteristics can be improved. The increasing shortage of veneer suitable for cased goods is also a factor favoring the market potentials for this use.

(Subsequent articles will suggest other industries to consider for development in the South.)

² "The Southeastern Corner," *The Atlanta Economic Review*, January 1959.

³ R. H. Page and J. R. Saucier, *Survey of Wood Residue in Georgia*, n.p., December 1958, p. 14.

⁴ *Wood Particle Board*, March 1959, page v. Prepared for the Georgia Department of Commerce by the Engineering Experiment Station, Georgia Institute of Technology.

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RETURN POSTAGE GUARANTEED

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(Worker and Working Conditions continued from page 7)
Upon analysis it becomes clear that while New England millmen were divesting themselves of villages and were trying to sell their community houses and other relics of an earlier day, they were being taxed so that their workers could receive the same social, educational, and medical benefits supplied by some southern millmen in the unincorporated villages. A chief accountant of a leading New England concern explained the situation to a group of investigators in the following terms:

It makes no difference in the final balance sheet whether the account is called "school," "school tax,"

or "damage from marauding children." There is an expense on industry which must be met, for the education of the young people. And likewise it is of immaterial difference in the last analysis whether the account is called "welfare work," or "donations to city welfare organizations."⁸

As a matter of fact, the available evidence points to a greater number of social services and a superior education enjoyed by workers in the North and in the urban centers of the South as compared to that afforded in the average mill village.

⁸ Abraham Berglund and others, *Labor in the Industrial South* (University, Va.: The Institute for Research in the Social Sciences, 1930), p. 123.

Research Studies Available

RESEARCH PAPER NUMBER 17

Public Relations in Secondary-School Business Education:

Part 1: The Nature and Scope of Current Activities and Media; A Public Relations Checklist for Business Educators

... by Calfrey C. Calhoun
56 + viii pp., 8½ x 11

This is the first paper of a study-series on the subject of public relations efforts of business education personnel in secondary schools. The author has made an extensive study of current public relations activities of high-school business education teachers and has formulated a checklist of such activities. From this list it is believed a determination can be made of those media of business-education public relations which are not only theoretically feasible but are practically possible and profitable.

Mr. Calhoun is Assistant Professor of Business Education, School of Business Administration of Georgia State College of Business Administration.

RESEARCH PAPER NUMBER 16

The Relationship of the Salesman's Wife to the Salesman's Selling Performance

... by David J. Schwartz
31 x iv pp., 8½ x 11 in.
(Price—50 cents plus 2 cents sales tax in Ga.)

One hundred and twenty-five sales executives in the Atlanta area responded to a questionnaire asking pertinent information as to the role and influence of the salesman's wife in her husband's success in his selling career. Among these questions were: (1) "Do you interview wives of sales applicants?" (2) "Do you attempt in any way to win greater enthusiasm and cooperation from the salesman's wife toward his selling career?" and (3) "Do you have any suggestions you would like to pass on to other sales executives for helping salesmen become more productive working through the salesman's wife?"

Dr. Schwartz is Professor of Marketing, School of Business Administration of Georgia State College of Business Administration.